



11/20/12

Representative Jud Gilbert, Chair
Tax Policy Committee Standing Committee
Room 307 House Office Building
P.O. Box 30014
Lansing, MI 48909

Subject: Proposed Mining Severance Tax Legislation from Representative Matt Huuki
Proposed Bills: HB6007 through HB6012

Dear Representative Gilbert,

I am the Marquette and Alger County Regional Educational Service Agency (MARESA) Associate Superintendent and represent the 13 school districts of Marquette and Alger Counties. Also the Kennecott Eagle Mine is currently being built in Michigamme Township which is located in my two county area. We are aware of the efforts to propose mining severance tax legislation in Michigan to increase job opportunities. WE RESPECTFULLY REQUEST YOU CONSIDER THE SIGNIFICANT IMPACT ON LOCAL MUNICIPALITIES AND SCHOOLS WHEN DRAFTING THIS LEGISLATION AND ASK THAT THE CURRENT AD VALOREM TAX OR A SPECIFIC ORE TAX WITH THE SAME BENEFITS BE MAINTAINED TO PROTECT AND PROVIDE LOCAL CONSTITUENTS WITH A REVENUE NEUTRAL OUTCOME. We also applaud efforts to implement a tax structure that would provide economic incentives to small and startup companies and prevent costly court challenges by companies being taxed.

We agree with efforts at creating additional jobs in the Upper Peninsula (U.P.). We also agree mining has provided significant opportunities to Michigan's U.P. and its workforce over the past 150 years. We further believe the amount of commodities available in the U.P. and worldwide are limited and valuable. IT NEEDS TO BE RECOGNIZED THAT ONCE THE COMMODITIES ARE MINED THE PRODUCT IS GONE FOREVER and so is that potential source of revenue gone for the state and local municipalities and schools. Almost all commodities continue to increase in value daily as the world evolves and grows and commodities become depleted. ALSO WE WOULD NOTE GOVERNOR SNYDER'S PLEDGE THAT ALL LEGISLATIVE ACTIONS SHOULD BE TRANSPARENT AND REFLECT THE SIMPLE, FAIR AND EFFICIENT PRINCIPLES.

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Hence we advocate for maintaining the benefits of the current ad valorem tax law in the newly proposed specific ore tax.

It has been the intent of everyone to insure LOCALS ARE HELD HARMLESS. THE PROPOSED SEVERANCE TAX LEGISLATION HAS ALWAYS BEEN ABOUT CHANGING THE TAX METHODOLOGY AND NOT REDUCING THE TAXES DUE LOCALS.

We do agree that all the potential mines being proposed have different economics and thus we believe those that can pay, like Kennecott's (Rio Tinto) Eagle Project should pay their fair share. Further we support economic incentives should be considered for startup or smaller companies only. All new mines will possess significant ability to accommodate proposed taxes through increased pricing as a result of the decreasing supply of commodities. We also strongly believe the current Kennecott Eagle project will happen and provide the expected employment opportunities regardless of the ad valorem or similar specific tax structure. WE WOULD NOTE THIS PROJECT WAS BEING DEVELOPED LONG BEFORE THERE WAS ANY TALK OF A SEVERANCE TAX FOR NON-FERROUS MINING. FURTHER, THE CURRENT KENNECOTT EAGLE MINE IN MARQUETTE COUNTY AND ITS REPRESENTATIVES HAVE PUBLICLY REINFORCED THAT LOCAL TAXES ARE GOOD BUSINESS. THE KENNECOTT REPRESENTATIVES HAVE EMPHASIZED THEY WANT TO PAY LOCAL TAXES AS IT PROMOTES A GOOD CORPORATE REPUTATION NOW AND IN FUTURE ENDEAVORS FOR THEIR CORPORATION.

In keeping with Governor Snyder's pledge of simple fair and efficient we want to insure corporations like Rio Tinto and others like it developing the U.P. resources that are reporting record profits are providing much need revenue to the state and local municipalities and schools. We recognize again that all proposed mines are different and that a two tier system of taxation may be needed to encourage mine development. WE WOULD SUGGEST AN ECONOMIC BENEFIT BE PROVIDED TO SMALL AND STARTUP COMPANIES SIMILAR TO THE FEDERAL SMALL BUSINESS ADMINISTRATIONS (SBA) SIZE STANDARD METHODOLOGY AS A POTENTIAL WAY TO IDENTIFY AND PROVIDE BENEFITS TO DIFFERENT SIZES AND TYPES OF COMPANIES.

THE TAX BENEFITS TO MARQUETTE-ALGER RESA AND THE REPUBLIC-MICHIGAMME SCHOOL DISTRICT WHERE THE KENNECOTT EAGLE MINE LIES INCLUDE:

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KENNECOTT'S IMPACT ON THE ISD.

MARESA WOULD RECEIVE 2.000 SPECIAL EDUCATION MILLS AND .2048 GENERAL EDUCATION MILLS FROM THE KENNECOTT PROJECT UNDER CURRENT AD VALOREM TAX LAW. MARESA WOULD DISTRIBUTE THESE MONIES REGIONALLY AND PRO RATABLE TO OUR 13 SCHOOL DISTRICTS UNDER OUR SPECIAL EDUCATION PLAN APPROVED BY THE STATE. THESE DOLLARS WOULD ASSIST OUR 13 SCHOOL DISTRICTS DEFRAY THE HIGH COST OF SPECIAL EDUCATION.

REPUBLIC-MICHIGAMME SCHOOL DISTRICT

THE REPUBLIC-MICHIGAMME SCHOOLS WOULD BE IMPACTED BY THE AD VALOREM TAX IN TWO WAYS, THROUGH PAYMENT OF A BOND AND GENERAL OPERATIONS REVENUE.

BOND

THE CITIZENS OF REPUBLIC-MICHIGAMME PASSED AN APPROXIMATE \$4.3 MILLION BOND ISSUE IN NOVEMBER 2011 UNDER THE AD VALOREM TAX LAW ASSUMING KENNECOTT WOULD PAY FOR A SIGNIFICANT PORTION OF THE BOND. THE MILLAGE IS EXPECTED TO BE JUST UNDER 2 MILLS. THE BOND WAS PASSED TO REHAB THE SCHOOL DISTRICT THAT WAS BUILT NEARLY 50 YEARS AGO IN THE MID 1960'S. THE MILLAGE WOULD MAINLY BE USED TO REPLACE THE ROOF, HEATING SYSTEM, WINDOWS AND LIGHTING ALONG WITH TECHNOLOGY UPGRADES. THE LAST TIME REPUBLIC-MICHIGAMME PURCHASED A BUS WAS IN 2006 OR 6 YEARS AGO. IT ONLY SEEMS FAIR THAT THE REPUBLIC-MICHIGAMME CITIZENS BE RECOGNIZED FOR THEIR WILLINGNESS TO SUPPORT THEIR SCHOOL DISTRICT BY PASSING THE MILLAGE AND THAT KENNECOTT PAY THEIR SHARE OF THIS BOND ISSUE AS EXPECTED UNDER THE AD VALOREM TAX LAW.



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GENERAL OPERATIONS

REPUBLIC-MICHIGAMME IS AN OUT OF FORMULA SCHOOL DISTRICT MEANING THEY GENERATE MORE MONEY FROM LOCAL PROPERTY TAXES THAN THEIR FOUNDATION AND THEREFORE ANY ADDITIONAL REVENUES GENERATED FROM THE KENNECOTT EAGLE PROJECT AND THE AD VALOREM TAX WOULD GO DIRECTLY TO THE SCHOOL. REPUBLIC-MICHIGAMME LIKE ALL SCHOOLS HAS SIGNIFICANTLY REDUCED COSTS DURING THE PAST 5-6 YEARS DURING A TIME OF RELATIVELY FLAT REVENUES. REPUBLIC-MICHIGAMME SCHOOL HAS BEEN A DEFICIT DISTRICT SINCE THE 08/09 SCHOOL YEAR. THROUGH ITS COST CUTTING EFFORTS AND THE FINANCIAL SERVICES SUPPORT FROM THE ISD THEY HAVE BEEN ABLE TO REDUCE COSTS AND CONSOLIDATE SERVICES. THEY CAME OUT OF DEFICIT AS OF 6/30/12. REPUBLIC-MICHIGAMME COST REDUCTIONS INCLUDED REDUCED ADMINISTRATION, TEACHING AND SUPPORT STAFF COSTS. ALSO THEY HAVE CONSOLIDATED THEIR BUSINESS SERVICES WITH MARESA AT THE ISD. SOME OF THE STAFF REDUCTIONS INCLUDE GOING TO A HALF TIME SUPERINTENDENT, ELIMINATION OF THE SUPERINTENDENT'S SECRETARY AND ELIMINATION OF THE BUSINESS MANAGER POSITION. THE SCHOOL ALSO WENT TO A FOUR DAY SCHOOL WEEK WHICH SAVED NEARLY \$100K PER YEAR

Based on the facts,

- * that the local municipalities and schools have supported this venture for the past eleven years and it is the group that will be taken to task by local constituents for any issues like mining problems, employee deaths or environmental damage.
- * that locals will be the ones to live with the legacy costs of this venture such as the need to repair roads due to additional use and intrusion on our daily lives,
- * that the proposed severance tax has a relatively small impact on mining companies and a large impact on local municipalities and schools,
- * that the most developed new U.P. mining operator Kennecott Eagle Mine owners have publicly stated their willingness and desire to pay the current ad valorem or like specific ore tax,
- * that the ad valorem or like specific ore tax will not impact the number of mining jobs created at the Eagle Project,
- * that commodity producers like Rio Tinto are reporting record profits
- * that companies will possess the ability to realize significant price increases over the

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life of their projects

- * AND THE DESIRE BY ALL TO ENCOURAGE FUTURE MINE DEVELOPMENT WITH LOCAL SUPPORT

WE RESPECTFULLY REQUEST THAT THE NEWLY PROPOSED SPECIFIC ORE TAX LAW RESULT IN A REVENUE NEUTRAL OUTCOME FOR THE KENNECOTT EAGLE PROJECT.

We also request that economic incentives be provided to small and startup companies to encourage job growth.

We also propose the current ad valorem tax benefits of the Kennecott Eagle Project be maintained and that the proposed specific ore tax legislation,

1. INSURE THE TAXES GENERATED BY THE MINES ARE COLLECTED AND KEPT LOCALLY, FOR BOTH MUNICIPALITIES AND SCHOOLS, under the ad valorem or similar specific tax.
2. RECOGNIZE THAT LOCAL COMMUNITIES HAVE SUPPORTED THE EAGLE PROJECT DEVELOPMENT FOR THE PAST ELEVEN YEARS WITH THE EXPECTATION TAX BENEFITS WOULD REMAIN LOCAL. Hence regardless of the tax methodology applied local municipalities and schools should be held harmless with a revenue neutral outcome.
3. in keeping with Governor Snyder's pledge of transparency that any legislation be reviewed and approved by local schools and municipalities that they agree it contains a revenue neutral outcome for their respective areas.

Thank you for allowing us to share our position and we look forward to working with you.

Sincerely,

Robert Nardi, Associate Superintendent

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